

**SOUTHWEST TRANSIT  
Eden Prairie, Minnesota**

**COMMUNICATIONS LETTER**

**Year Ended December 31, 2013**

**SOUTHWEST TRANSIT**

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*Expert advice. When you need it.<sup>SM</sup>*

**REPORT ON MATTERS IDENTIFIED AS A RESULT OF  
THE AUDIT OF THE FINANCIAL STATEMENTS**

Board of Commissioners and Management  
SouthWest Transit  
Eden Prairie, Minnesota

In planning and performing our audit of the financial statements of SouthWest Transit (SWT), Eden Prairie, Minnesota, as of and for the year ended December 31, 2013, in accordance with auditing standards generally accepted in the United States of America, we considered SWT's internal control over financial reporting (internal control) as a basis for designing our auditing procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of SWT's internal control. Accordingly, we do not express an opinion on the effectiveness of SWT's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that were not identified.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies in internal control, such that there is a reasonable possibility that a material misstatement of SWT's financial statements will not be prevented or detected and corrected, on a timely basis. We did not identify any deficiencies in internal control that we consider to be material weaknesses.

A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

The accompanying memorandum also includes financial analysis provided as a basis for discussion. The matters discussed herein were considered by us during our audit and they do not modify the opinion expressed in our Independent Auditor's Report dated May 7, 2014, on such statements.

This communication is intended solely for the information and use of management, the Board of Commissioners, others within SWT and state oversight agencies and is not intended to be and should not be used by anyone other than these specified parties.

*Kern, DeWenter, Viere, Ltd.*  
KERN, DEWENTER, VIERE, LTD.  
St. Cloud, Minnesota  
May 7, 2014

## **SOUTHWEST TRANSIT**

### **REQUIRED COMMUNICATION**

**December 31, 2013**

We have audited the financial statements of SWT for the year ended December 31, 2013, and have issued our report dated May 7, 2014. Professional standards require that we provide you with the following information related to our audit.

#### **OUR RESPONSIBILITY UNDER AUDITING STANDARDS GENERALLY ACCEPTED IN THE UNITED STATES OF AMERICA, GOVERNMENT AUDITING STANDARDS AND OMB CIRCULAR A-133**

As stated in our engagement letter, our responsibility, as described by professional standards, is to express an opinion about whether the financial statements prepared by management with your oversight are fairly presented, in all material respects, in conformity with accounting principles generally accepted in the United States of America. Our audit of the financial statements does not relieve you or management of your responsibilities.

In planning and performing our audit, we considered SWT's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing an opinion on the financial statements and not to provide assurance on the internal control over financial reporting. We also considered internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with U.S. Office of Management and Budget (OMB) *Circular A-133*.

As part of obtaining reasonable assurance about whether SWT's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit. Also in accordance with OMB *Circular A-133*, we examined, on a test basis, evidence about SWT's compliance with the types of compliance requirements described in the OMB *Circular A-133* Compliance Supplement applicable to each of its major federal programs for the purpose of expressing an opinion on SWT's compliance with those requirements. While our audit provided a reasonable basis for our opinion, it did not provide a legal determination on SWT's compliance with those requirements.

Our responsibility for the supplementary information accompanying the financial statements, as described by professional standards, is to evaluate the presentation of the supplementary information in relation to the financial statements as a whole and to report on whether the supplementary information is fairly stated, in all material respects, in relation to the financial statements taken as a whole.

#### **PLANNED SCOPE AND TIMING OF THE AUDIT**

An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements; therefore, our audit involved judgment about the number of transactions to be examined and the areas to be tested.

Our audit included obtaining an understanding of SWT and its environment, including internal control, sufficient to assess the risks of material misstatement of the financial statements and to design the nature, timing and extent of further audit procedures. Material misstatements may result from (1) errors, (2) fraudulent financial reporting, (3) misappropriation of assets or (4) violations of laws or governmental regulations that are attributable to SWT or to acts by management or employees acting on behalf of SWT.

**SOUTHWEST TRANSIT**  
**REQUIRED COMMUNICATION**  
**December 31, 2013**

**QUALITATIVE ASPECTS OF ACCOUNTING PRACTICES**

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by SWT are described in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during the year ended December 31, 2013. We noted no transactions entered into by SWT during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the proper period.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimate affecting the financial statements was:

Depreciation – SWT is currently depreciating its capital assets over their estimated useful lives, as determined by management, using the straight-line method.

The financial statement disclosures are neutral, consistent and clear.

**DIFFICULTIES ENCOUNTERED IN PERFORMING THE AUDIT**

We encountered no difficulties in dealing with management in performing and completing our audit.

**CORRECTED AND UNCORRECTED MISSTATEMENTS**

Professional standards require us to accumulate all misstatements identified during the audit, other than those that are clearly trivial, and communicate them to the appropriate level of management. We identified the following uncorrected misstatement of the financial statements. Management has determined their effects are immaterial, both individually and in the aggregate, to the financial statements taken as a whole.

- Depreciation relating to the Chaska Garage was not recorded in 2013
- OPEB liability related to GASB 45 is not recorded
- East Creek Station accounts payable was under booked due to receiving the invoice late.

In addition, none of the misstatements detected as a result of audit procedures and corrected by management were material, either individually or in the aggregate, to the financial statements taken as a whole.

**DISAGREEMENTS WITH MANAGEMENT**

For purposes of this letter, a disagreement with management is a financial accounting, reporting or auditing matter, whether or not resolved to our satisfaction that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

**MANAGEMENT REPRESENTATIONS**

We requested certain representations from management that are included in the management representation letter.

**SOUTHWEST TRANSIT**  
**REQUIRED COMMUNICATION**  
**December 31, 2013**

**MANAGEMENT CONSULTATIONS WITH OTHER INDEPENDENT ACCOUNTANTS**

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a “second opinion” on certain situations. If a consultation involves application of an accounting principle to SWT’s financial statements or a determination of the type of auditor’s opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

**OTHER AUDIT FINDINGS OR ISSUES**

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as SWT’s auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

**OTHER MATTERS**

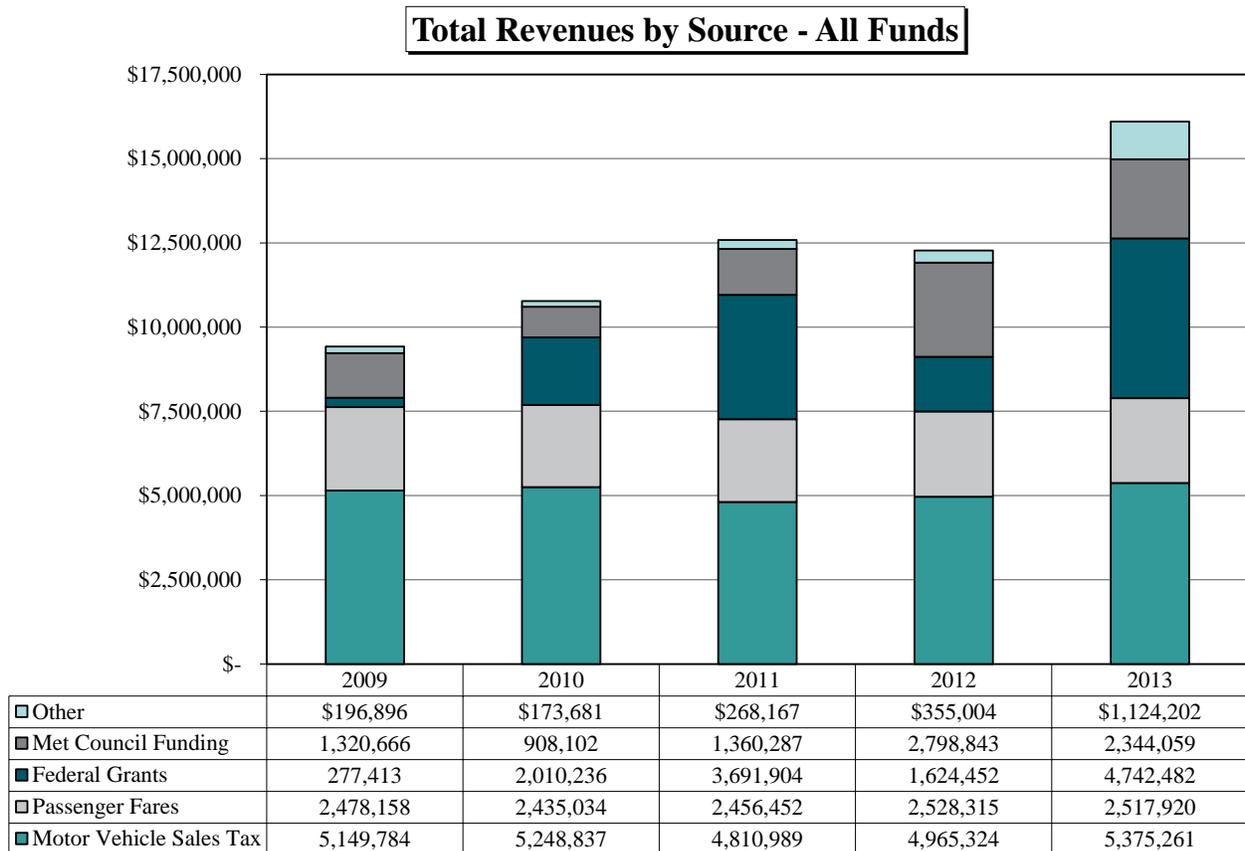
With respect to the supplementary information accompanying the financial statements, we made certain inquiries of management and evaluated the form, content and methods of preparing the information to determine that the information complies with accounting principles generally accepted in United States of America, the method of preparing it has not changed from the prior period, and the information is appropriate and complete in relation to our audit of the financial statements. We compared and reconciled the supplementary information to the underlying accounting records used to prepare the financial statements or to the financial statements themselves.

## SOUTHWEST TRANSIT

### FINANCIAL ANALYSIS December 31, 2013

The following pages provide graphic representation of select data pertaining to the financial position and operations of SWT for the past five years. Our analysis of each graph is presented to provide a basis for discussion of past performance and how implementing certain changes may enhance future performance. We suggest you view each graph and document if our analysis is consistent with yours. A subsequent discussion of this information should be useful for planning purposes.

The following graphs are included to facilitate discussion of past operating results and related trends for future years' operations of SWT.

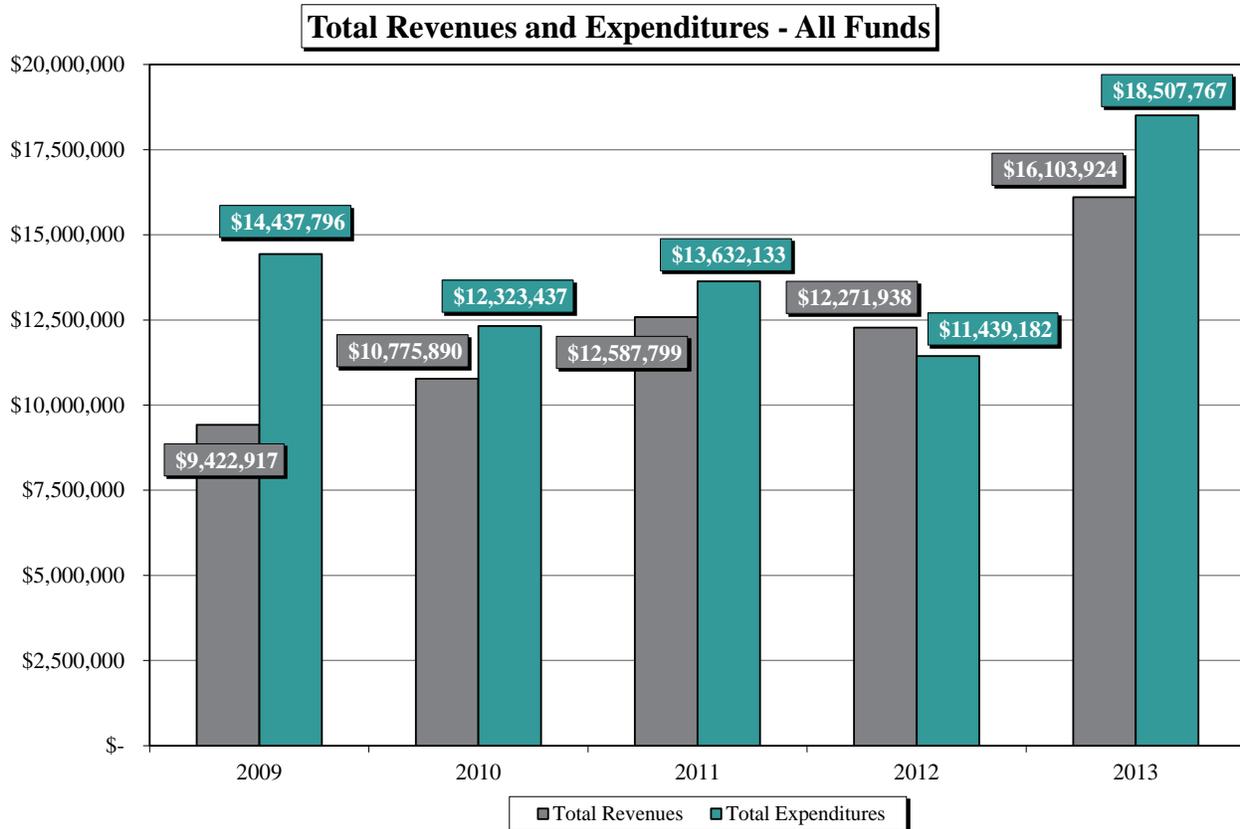


Revenue increased \$ 3,831,986 in 2013 compared to 2012. Of this increase, \$ 3,118,030, or 81.4%, was due to an increase in federal grant revenues relating to the construction of the East Creek Station. Motor vehicle sales tax revenues increased \$ 409,937, which was offset by a \$ 454,784 decrease in funding from Met Council. Motor vehicle sales tax revenue is determined by a state allocation of vehicle sales tax in Minnesota and fluctuates each year based on vehicle sales in Minnesota. The decrease in funding from Met Council is due to SWT receiving a one-time reimbursement in the prior year for past capital expenditures in the amount of \$ 1,600,000 that was paid in lieu of future capital reimbursements. This large decrease was reduced due to SWT receiving regional allocated MVST in 2013 which was awarded in addition to MVST to maintain fund balance at 35% of expenditures. SWT also had an increase in other revenues of \$ 769,198, mostly due to the sale of land held for resale and an increase in parking revenues as a local business did not have enough parking spaces for its temporary employees for four months of 2013.

## SOUTHWEST TRANSIT

### FINANCIAL ANALYSIS

December 31, 2013



Total expenditures exceeded total revenues in four of the last five years. In 2013, expenditures exceeded revenues by \$ 2,403,843, mostly due to refinancing debt in the SouthWest Village debt service fund and beginning energy savings projects. The debt service payments and energy savings project costs are included in expenditures; however, proceeds from issuing the Refunding Certificates of Participation and energy lease are included in other financing sources, which are not considered in the revenue totals in the chart above.

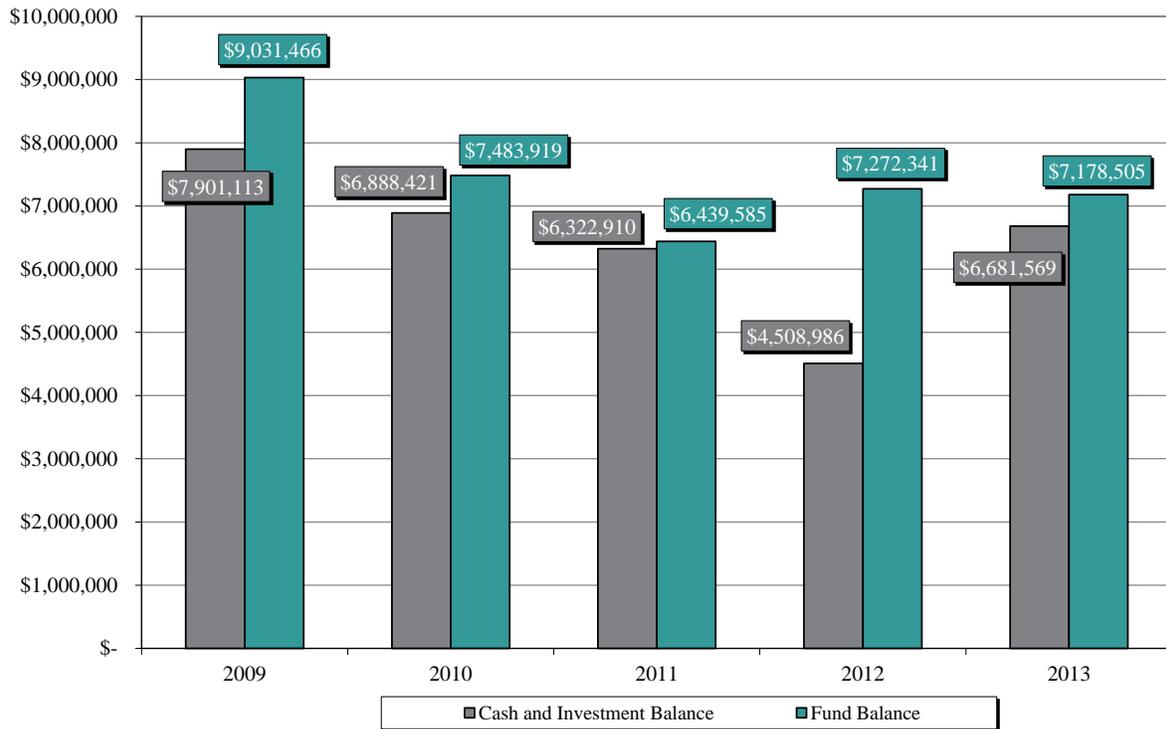
Total expenditures increased \$ 7,068,585 from the prior year due to refunding the debt, costs related to the construction of the East Creek Station, the energy savings projects and several other increases in current expenditures. The increase in the capital outlay expenditures for the East Creek Station project was offset by federal and state grants, which reimbursed SWT for these costs. Current expenditures increased \$ 517,082 as a result of an increase in fuel with more miles driven, an increase in transit drivers as a result of more service routes with East Creek Station opening and an increase in technology costs associated with revamping the website and adding wireless internet service to all buses.

# SOUTHWEST TRANSIT

## FINANCIAL ANALYSIS

December 31, 2013

**Cash and Fund Balance - All Funds**



The cash and investment balance was lower than fund balance in all five years presented. Cash and investments increased \$ 2,172,583 while fund balance decreased \$ 93,836 from 2012 to 2013.

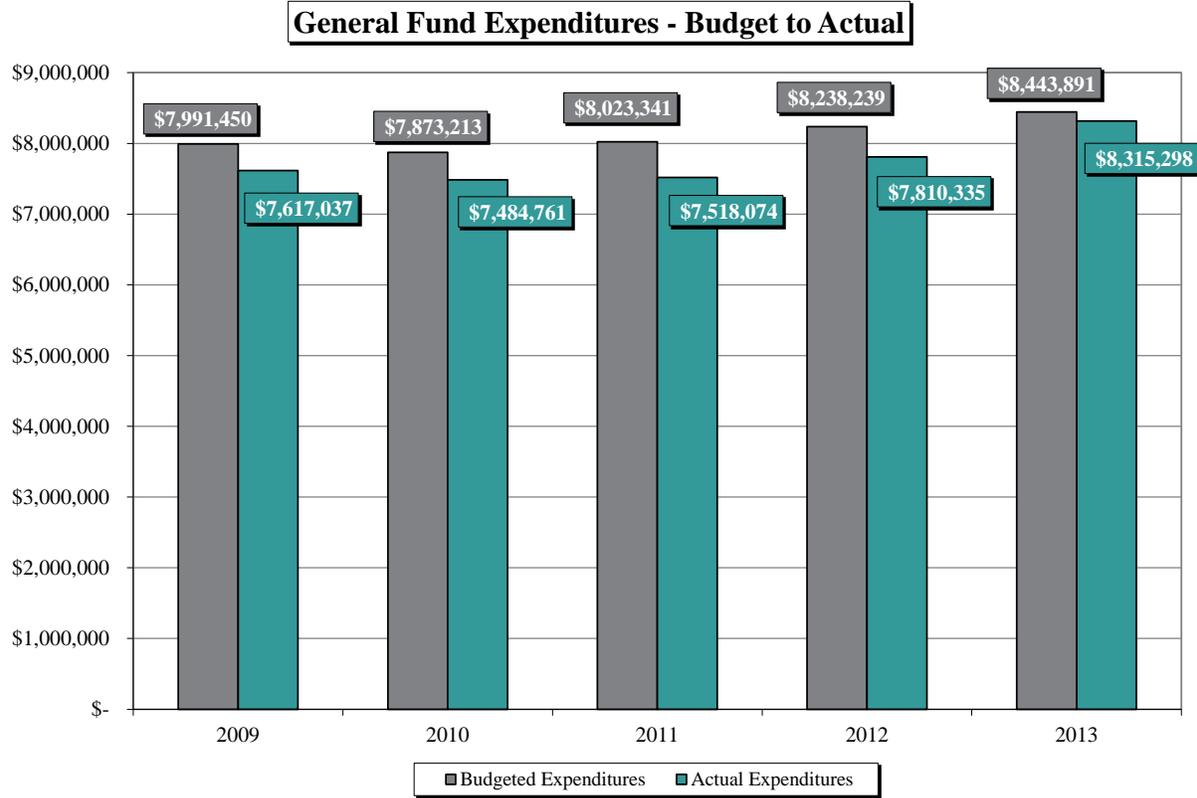
The cash and investment balance increased due to a \$ 2,267,309 decrease in intergovernmental receivables from the prior year and the sale of land held for resale. The decrease is due to the reimbursement commitment from Met Council totaling \$ 1,600,000 in 2012 for prior capital expenditures and the decrease in federal and state grant receivable related to the East Creek Station project totaling \$ 702,398.

The General Fund balance decreased \$ 60,357 to \$ 3,230,309 in 2013 primarily due to operating transfers out totaling \$ 400,000 to the Capital and Equipment Capital Projects Fund for equipment and facility needs. This offset the excess of revenues over expenditures experienced by the fund of \$ 339,643. The unassigned fund balance in the General Fund as of December 31, 2013 is \$ 2,707,349, which represents approximately 33%, or four months of expenditures, based on 2013 expenditure levels.

# SOUTHWEST TRANSIT

## FINANCIAL ANALYSIS

December 31, 2013



General Fund budgeted expenditures exceeded actual expenditures in all five years presented. Expenditures were under budget by \$ 22,689 and \$ 148,924 in buildings and grounds and operations and vehicle maintenance, respectively in 2013. General government actual expenditures, however, exceeded budgeted expenditures by \$ 43,020 in 2013.

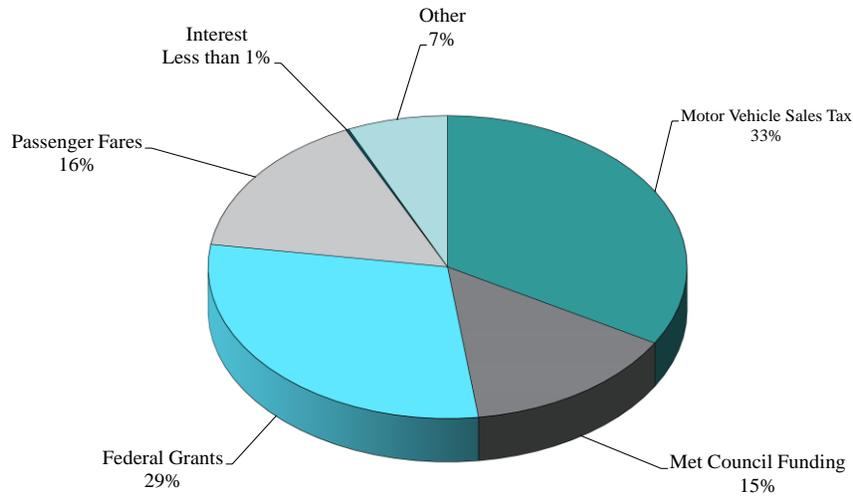
# SOUTHWEST TRANSIT

## FINANCIAL ANALYSIS

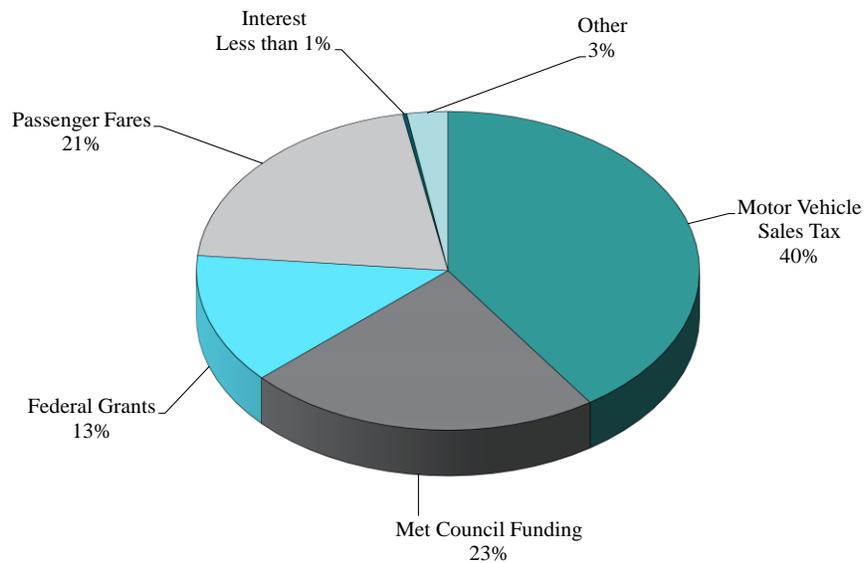
December 31, 2013

The following pie charts show the allocation of revenue by source for all funds in 2013 and 2012. The most noticeable changes were in federal grants and MC funding. Other areas of revenue stayed consistent with the prior years.

**Operating Revenues by Source for 2013 - All Funds**



**Operating Revenues by Source for 2012 - All Funds**



In the General Fund, the regional target for passenger fare revenue in relation to non capital expenditures is 28%. During 2013, SWT's passenger fare revenue as a percentage of non capital expenditures was 30.3%, while it was 32.5% in 2012.

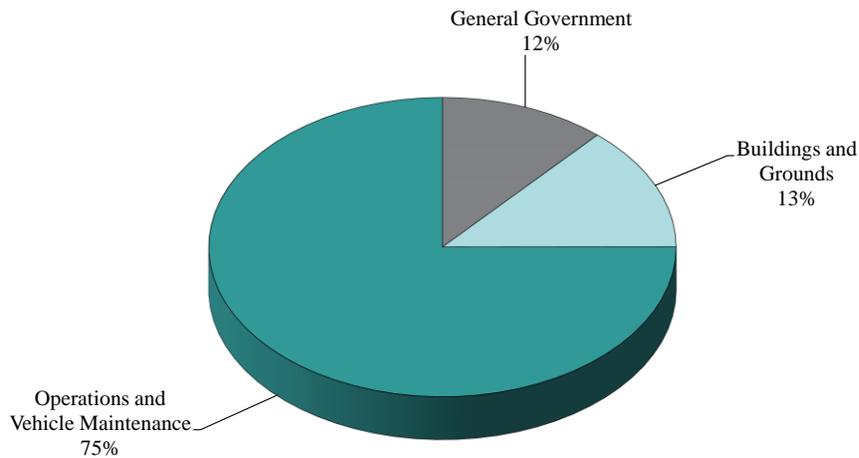
# SOUTHWEST TRANSIT

## FINANCIAL ANALYSIS

December 31, 2013

The following pie charts show the allocation of expenditures by program for the General Fund in 2013 and 2012. The allocation has been stable with a slight increase in general government expenditures and a slight decrease in building and grounds expenditures in 2013.

**Operating Expenditures by Department for 2013  
General Fund**



**Operating Expenditures by Department for 2012  
General Fund**

